

Woodward, Inc.  
Form 10-Q  
January 24, 2018  
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-08408  
WOODWARD, INC.  
(Exact name of registrant as specified in its charter)

Delaware 36-1984010  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1081 Woodward Way, Fort Collins, Colorado 80524  
(Address of principal executive offices) (Zip Code)  
(970) 482-5811

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer      Accelerated filer      Non-accelerated filer      Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of January 18, 2018, 61,272,503 shares of the registrant’s common stock with a par value of \$0.001455 per share were outstanding.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## WOODWARD, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share amounts)

(Unaudited)

	Three-Months Ended December 31,	
	2017	2016
Net sales	\$ 470,148	\$ 442,894
Costs and expenses:		
Cost of goods sold	346,784	329,148
Selling, general and administrative expenses	46,276	38,300
Research and development costs	34,786	26,540
Interest expense	6,750	6,840
Interest income	(363)	(405)
Other (income) expense, net (Note 16)	(1,572)	(4,588)
Total costs and expenses	432,661	395,835
Earnings before income taxes	37,487	47,059
Income tax expense	19,227	511
Net earnings	\$ 18,260	\$ 46,548
Earnings per share (Note 3):		
Basic earnings per share	\$ 0.30	\$ 0.76
Diluted earnings per share	\$ 0.29	\$ 0.73
Weighted Average Common Shares Outstanding (Note 3):		
Basic	61,246	61,559
Diluted	63,709	63,671
Cash dividends per share paid to Woodward common stockholders	\$ 0.125	\$ 0.110

See accompanying Notes to Condensed Consolidated Financial Statements

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WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands)

(Unaudited)

	Three-Months Ended December 31,	
	2017	2016
Net earnings	\$ 18,260	\$ 46,548

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Other comprehensive earnings:		
Foreign currency translation adjustments	5,103	(18,635)
Net (loss) gain on foreign currency transactions designated as hedges of net investments in foreign subsidiaries (Note 6)	(743)	3,830
Taxes on changes in foreign currency translation adjustments	187	(306)
Foreign currency translation and transactions adjustments, net of tax	4,547	(15,111)
Reclassification of net realized gains on derivatives to earnings (Note 6)	(18)	(18)
Taxes on changes in derivative transactions	7	7
Derivative adjustments, net of tax	(11)	(11)
Curtailment of postretirement benefit plan arising during the period	59	-
Amortization of pension and other postretirement plan:		
Net prior service cost	137	56
Net loss	246	641
Foreign currency exchange rate changes on pension and other postretirement benefit plan liabilities	(99)	1,255
Taxes on changes in pension and other postretirement benefit plan liability adjustments, net of foreign currency exchange rate changes	(132)	(693)
Pension and other postretirement benefit plan adjustments, net of tax	211	1,259
Total comprehensive earnings	\$ 23,007	\$ 32,685

See accompanying Notes to Condensed Consolidated Financial Statements

WOODWARD, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(Unaudited)

	December 31, 2017	September 30, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 85,779	\$ 87,552
Accounts receivable, less allowance for uncollectible amounts of \$3,793 and \$3,776, respectively	331,438	402,182
Inventories	503,523	473,505
Income taxes receivable	18,842	19,376
Other current assets	39,660	38,574
Total current assets	979,242	1,021,189
Property, plant and equipment, net	930,158	922,043
Goodwill	556,759	556,545
Intangible assets, net	165,633	171,882
Deferred income tax assets	20,473	19,950
Other assets	72,909	65,500
Total assets	\$ 2,725,174	\$ 2,757,109
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term borrowings	\$ 66,300	\$ 32,600
Accounts payable	182,144	232,788
Income taxes payable	5,891	6,774
Accrued liabilities	98,785	155,072
Total current liabilities	353,120	427,234
Long-term debt, less current portion	583,339	580,286
Deferred income tax liabilities	21,901	33,408
Other liabilities	366,268	344,798
Total liabilities	1,324,628	1,385,726
Commitments and contingencies (Note 20)		
Stockholders' equity:		
Preferred stock, par value \$0.003 per share, 10,000 shares authorized, no shares issued	-	-
Common stock, par value \$0.001455 per share, 150,000 shares authorized, 72,960 shares issued	106	106
Additional paid-in capital	176,473	163,836



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Accumulated other comprehensive losses	(48,439)	(53,186)
Deferred compensation	8,173	7,135
Retained earnings	1,830,872	1,820,268
	1,967,185	1,938,159
Treasury stock at cost, 11,706 shares and 11,739 shares, respectively	(558,466)	(559,641)
Treasury stock held for deferred compensation, at cost, 200 shares and 186 shares, respectively	(8,173)	(7,135)
Total stockholders' equity	1,400,546	1,371,383
Total liabilities and stockholders' equity	\$ 2,725,174	\$ 2,757,109

See accompanying Notes to Condensed Consolidated Financial Statements.

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WOODWARD, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three-Months Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net earnings	\$ 18,260	\$ 46,548
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	21,070	18,913
Gain due to curtailment of postretirement plan	(330)	-
Net gain on sales of assets	(58)	(3,699)
Stock-based compensation	12,423	1,261
Deferred income taxes	(11,681)	4,777
Gain on derivatives reclassified from accumulated comprehensive earnings into earnings	(18)	(18)
Changes in operating assets and liabilities:		
Accounts receivable	72,714	87,615
Inventories	(28,796)	(37,632)
Accounts payable and accrued liabilities	(104,150)	(54,563)
Income taxes	25,597	(5,731)
Retirement benefit obligations	(673)	(897)
Other	(6,891)	(4,223)
Net cash (used in) provided by operating activities	(2,533)	52,351
Cash flows from investing activities:		
Payments for purchase of property, plant, and equipment	(28,450)	(21,058)
Proceeds from sale of assets	132	3,682
Proceeds from sales of short-term investments	-	758
Payments for purchases of short-term investments	(791)	-
Net cash used in investing activities	(29,109)	(16,618)
Cash flows from financing activities:		
Cash dividends paid	(7,656)	(6,779)
Proceeds from sales of treasury stock	1,389	4,843
Payments for repurchases of common stock	-	(24,004)
Borrowings on revolving lines of credit and short-term borrowings	458,950	316,650
Payments on revolving lines of credit and short-term borrowings	(425,250)	(312,800)
Payments of long-term debt and capital lease obligations	(106)	(102)

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Net cash provided by (used in) financing activities	27,327	(22,192)
Effect of exchange rate changes on cash and cash equivalents	2,542	(13,746)
Net change in cash and cash equivalents	(1,773)	(205)
Cash and cash equivalents at beginning of year	87,552	81,090
Cash and cash equivalents at end of period	\$ 85,779	\$ 80,885

See accompanying Notes to Condensed Consolidated Financial Statements

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WOODWARD, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Number of shares				Stockholders' equity						
	Preferred stock	Common stock	Treasury stock	Treasury stock held for deferred compensation	Common stock	Additional paid-in capital	Foreign currency translation adjustments	Accumulated other comprehensive earnings	Unrealized derivative gains (losses)	Minimum retirement benefit liability adjustments	Total
Balances as of October 1, 2016	-	72,960	(11,374)	(157)	\$ 106	\$ 141,570	\$ (25,971)	\$ 179	\$ (39,913)	\$ -	\$ -
Net earnings	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss), net of tax	-	-	-	-	-	-	(15,111)	(11)	1,259	-	(15,063)
Cash dividends paid (\$0.110 per share)	-	-	-	-	-	-	-	-	-	-	-
Purchases of treasury stock	-	-	(350)	-	-	-	-	-	-	-	-
Sales of treasury stock	-	-	139	-	-	(907)	-	-	-	-	-
Common shares issued from treasury stock to settle employee liabilities	-	-	26	(26)	-	740	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	1,261	-	-	-	-	-
Purchases and transfers of stock by/to deferred	-	-	-	-	-	-	-	-	-	-	-

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compensation plan										
Distribution of stock from deferred compensation plan	-	-	-	-	-	-	-	-	-	-
Balances as of December 31, 2016	-	72,960	(11,559)	(183)	\$ 106	\$ 142,664	\$ (41,082)	\$ 168	\$ (38,654)	\$ (
Balances as of October 1, 2017	-	72,960	(11,739)	(186)	\$ 106	\$ 163,836	\$ (27,280)	\$ 135	\$ (26,041)	\$ (
Net earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss), net of tax	-									